

Message Text

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15

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

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TO SECSTATE WASHDC 5142

INFO COMICEDEFOR

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AMEMBASSY STOCKHOLM

AMEMBASSY HELSINKI

AMEMBASSY COPENHAGEN

USMISSION TO OECD PARIS

USMISSION TO EC BRUSSELS

USMISSION NATO

CINCLANT

UNCLAS REYKJAVIK 0106

E.O. 11652: N/A

TAGS: ECON, EFIN, IC

SUBJECT: CERP: TRADE MINISTER SEES GLOOMY PROSPECTS FOR ICELAND

1. OLAFUR JOHANNESSEN, MINISTER OF COMERCE AND FORMER PRIME MINISTER, LAST WEEK IN SPEECH TO PROGRESSIVE PARTY MEMBERS, ANNOUNCED A 15.3 BILLION KROUNUR TRADE DEFICIT FOR 1974. HE NOTED THE ESTIMATED DEFICIT HAD BEEN 9.2 BILLION IKR. WHEN THE NEW GOVERNMENT TOOK CONTROL LAST SUMMER. THE DEFICIT IS 11.5 PERCENT OF THE 1974 GNP COMPARED WITH THE 2.6 BILLION IKR. 1973 TRADE DEFICIT WHICH WAS 2.8 PERCENT OF THAT YEAR'S GNP. RESERVES AT THE END OF 1974, HE SAID, WERE ONLY 20 PERCENT OF WHAT THEY WERE AT THE BEGINNING OF THE YEAR. (ACCORDING TO PRESS REPORTS RESERVES WERE UNCLASSIFIED

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1.914 BILLION AT YEAR'S END COMPARED WITH 9.072 ON

JANUARY 1, 1974. THE DIFFERENCE IS GIVEN AS 7.158 BILLION, OR IF AVERAGE EXCHANGE PRICES FOR THE YEAR ARE USED, THEN 5.8 BILLION IKR.)

2. ACCORDING TO JOHANNESSON, THE MAIN REASONS FOR THIS DETERIORATION IS (1) POOR TRADE TERMS (DOWN 11 PERCENT ON THE AVERAGE UT DOWN 24 PERCENT FROM END OF 1973 TO END OF 1974), (2) REDUCED EXPORT SALES, AND (3) INCREASED GENERAL IMPORTS. HE SAID PRICES OF GOODS AND SERVICES WERE UP 42-43 PERCENT FROM 1973 AND THAT WAGE CONTRACTS WOULD HAVE RESULTED IN A 60 PERCENT WAGE INCREASE IF NOTHING HAD BEEN DONE. AS IT WAS, HE NOTED THAT THE NATIONAL ECONOMIC INSTITUTE CALCULATED THAT WAGES INCREASED 48 PERCENT IN 1974. SO IT IS OBVIOUS, SAID THE MINISTER, THAT THERE IS NO ROOM FOR GENERAL PAY RAISES. ON THE OTHER HAND, CHANGES COULD BE MADE IN THE INDEX SYSTEM, HE BELIEVED,-FOR EXAMPLE, BY DELETING THE TAXES AND DUTIES. (REPORTING OFFICER'S NOTE: THE FIGURES 42-43 PERCENT ON PRICE INCREASES ARE ANNUAL AVERAGE FIGURES. THE YEAR-END COST-OF-LIVING INCREASE FOR 1974 IS OVER 50 PERCENT.

THE 48 PERCENT WAGE INCREASE IS LIKEWISE AN ANNUAL AVERAGE. THE NATIONAL ECONOMIC INSTITUTE SAYS THAT WAGES WERE ALREADY OVER 15 PERCENT ABOVE THE 1973 AVERAGE BEFORE THE FEBRUARY WAGE NEGOTIATIONS ENDED. WHEN THOSE CONTRACTS PLUS OCTOBER AND DECEMBER RAISES ARE "AVERAGED IN", THE FIGURE RUNS UP TO 48 PERCENT.)

3. HE FELT THE MEASURES TAKEN LAST YEAR WERE "TOO LITTLE, TOO LATE". POSSIBLE FURTHER MEASURES HE SAID WHICH WOULD BE CONSIDERED ARE: (1) COORDINATED MONETARY AND LOAN MEASURES, (2) DECREASED PRIVATE CONSUMPTION, (3) FEASIBILITY OF AN OBLIGATORY SAVINGS PLAN, (4) SPECIAL LEVY ON LUXURY ITEMS AND AIRLINE TICKETS, AND (5) REDUCTION OF STATE AND LOCAL GOVERNMENT PROJECTS.

4. COMMENT: THE MINISTER'S TALK HAS HELPED FEED UNSUBSTANTIATED REPORTS OF CURRENCY CONTROL, FOR EXAMPLE, A TAX ON FOREIGN EXCHANGE PURCHASES. THE MINISTER DENIED UNCLASSIFIED

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HE WAS PROPOSING SUCH A THING. HE HAS HOWEVER PUT THE SQUEEZE ON IMPORTERS BY SAYING THAT THEY WOULD BE GIVEN A LIMITED TIME TO CLEAR ITEMS THROUGH CUSTOMS. THE PICTURE OF HUNDREDS OF AUTOMOBILES WAITING TO CLEAR CUSTOMS IN REYKJAVIK WHICH WAS PUBLISHED RECENTLY IS A FAINT ECHO OF THOUSANDS OF CARS HELD AT US PORTS AND PICTURED IN THE US PRESS. BUT THE SMALLNESS OF THE ECONOMY HERE MAGNIFIES THE SERIOUSNESS OF THE ECONOMIC

CRISIS WHICH ICELANDERS ARE ONLY BEGINNING TO REALIZE.
THE PARLIAMENT OPENS TODAY AND WE EXPECT TO HEAR MORE
SPECIFIC PROPOSALS ON RESCUING THE ECONOMY.
MARTIN

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